

2.1
Hand
SECRET

OFFICE OF STRATEGIC SERVICES

Research and Analysis Branch

0973
21092
No. 2299

Not to be shown Outside R. & A. Washington

R & A No. 2299

DEPARTMENT OF STATE
REFERENCE DIVISION
FILE COPY
PLEASE RETURN
REF

THE SWEDISH BAIL BEARING NEGOTIATIONS

Description

The structure of SKF, its importance to the German war economy, and a history and analysis of the 1944 negotiations between Sweden and the Allied powers.

7 August 1944

This document contains information affecting the national defense of the United States within the meaning of the Espionage Act, 50 USC 31 and 32, as amended. Its transmission or the revelation of its contents in any manner to an unauthorized person is prohibited by law.

Copy No. 7

SECRET

SECRET

TABLE OF CONTENTS

	<u>Page</u>
Summary.....	iv
I. The Anti-Friction Bearing Industry.....	1
A. The SKF Combine.....	1
B. Relations Between the Swedish Government and SKF.....	16
C. War Developments: Belligerents.....	18
D. Bomb Damage.....	22
E. Swedish Exports to Germany.....	23
II. Diplomacy of the Ball Bearing Question.....	28
A. Background.....	28
B. Bombings 1944.....	32
C. Preparation of the Demarche, 25 January - 13 April 1944.....	34
D. Demarche, 13 April 1944.....	37
E. British, Russian and Norwegian Views.....	38
F. Swedish Reaction.....	41
G. The Swedish Argument.....	45
1. National Security.....	45
2. Sweden's Economic Position.....	47
3. Legality.....	48
4. Relative unimportance of Swedish exports to Germany.....	51
H. German Pressure.....	52
I. Negotiations.....	54
III. Conclusion.....	64

SECRET

SECRET

LIST OF TABLES

	<u>Page</u>
Table I. The SKF Combine.....	3
Table II. Great Britain. Bearing Consumption By Size.....	19
Table III. Bearing Production.....	20
Table IV. Use Pattern of Bearing Production.....	21
Table V. Swedish Exports of Ball and Roller Bear- ings and Parts, 1938 - 1942.....	24
Table VI. Swedish Exports of Ball and Roller Bear- ings and Parts, 1943 - 1944.....	28
Table VII. War Trade Agreement, 1944. Swedish Ex- ports to German Europe.....	29
Table VIII. 1944 Raids on Axis Ball Bearing Plants..	33
Table IX. Monthly Exports, 12 May--12 October 1944	62

SECRET

SUMMARY

SECRET

The SKF Combine: SKF is an international combine which dominates the production and marketing of ball and roller bearings in world markets and interlocks financially with Swedish and continental, particularly German, industry. The controls are centered in Gothenburg, Sweden; the largest manufacturing units are in Germany. Ownership of the company is mainly Swedish, but American experts believe that German interests own much of SKF's stock through Swedish dummies. SKF does business with both belligerents and its policies shift with the fortunes of the war. The company's relations with the Swedish government are very close.

SKF has provided a major share of the bearings for the German war-machine, mainly from its continental plants and to a lesser extent from Sweden. In the summer of 1943, the USAAF began a systematic bombing attack on German bearing capacity and by the end of the year had reduced it approximately 25 percent and by May 1944 had reduced it 50 percent. Prior to the bombings, Sweden provided Germany with three percent of her bearing needs; at the end of 1943, Sweden was providing Germany with 7.9 percent of her needs and by April 1944 the figure had risen to 12 percent. Swedish exports to Germany rose steadily, 1938-1943; 1943 exports by volume were 339 percent higher than 1938 exports. Swedish exports were substantially increased in the last six months of

SECRET

SECRET

1943, when the bombing campaign was underway.

Diplomacy: At the beginning of the war, the British tried to limit Swedish exports to Germany to pre-war levels, but the agreement was not honored by the Swedes. In the War Trade Agreement for 1944, the Swedes agreed with the Allied governments to cut their exports by approximately 50 percent, and this limitation was accepted by Germany.

In the spring of 1944, the Joint Chiefs of Staff determined that it was of the utmost military importance to secure a reduction in or termination of Swedish bearing exports to Axis Europe. Diplomatic steps were taken to effect this objective as well as to work out a more restrictive policy with regard to all the neutrals in line with Secretary Hull's address of 9 April 1944.

On 13 April 1944, the American government presented a note to the Swedish government asking that Sweden suspend for at least three months exports to Germany of bearings, bearing parts, bearing machinery and special steels. The United States offered to assume German orders with SKF, assure to SKF title to its German properties should they be expropriated, reimburse Sweden for imports Germany might cut off, and provide products needed by Sweden. If Sweden failed to agree, the United States would consider using the means at its disposal to bring about the desired result. The British and Russian governments associated

SECRET

SECRET

themselves with this note, though neither was willing to agree to blacklist SKF. The Norwegian government took no action.

Sweden rejected the American demand on 22 April on the unanimous decision of the Cabinet and Riksdag, but the door was left open for further negotiations. The Swedish press, on the whole, supported the rejection. The Swedish arguments advanced by the government and press were: (1) Sweden's national security would be endangered; the Germans might invade the country. The Swedes stated that the American note had the "sinister" motive of dragging Sweden into the war. (2) The Germans could impose economic sanctions, particularly shutting off coal, which would strangle Sweden economically. (3) Sweden had legal commitments to Germany which were known to the Allied governments. Actually the Swedish government was committed only to issue export licenses and only SKF had commitments for delivery of bearings. (4) The Allies exaggerated the importance of Swedish bearing exports to the German war economy.

The Germans exerted military, economic, and propaganda pressures on the Swedes to restrain them from concessions to the Allied demands.

Negotiations between Allied representatives and SKF began immediately after the rejection of the American note. The British proposed an embargo on exports to all belligerents. The Russians

SECRET

SECRET

demurred due to their own desire for SKF bearings. The Swedes rejected the proposal.

On 8 May, Mr. Stanton Griffis arrived in Stockholm and proposed that: SKF embargo bearing exports to Germany for the duration in return for which the United States would assume the unfilled German orders, place large additional orders, and hold SKF harmless against legal action the Germans might later bring over an alleged violation of the German contracts. At the same time, pressure was put on SKF Industries, Philadelphia. As a result, SKF agreed to impose a secret embargo on 12 May lasting until 5 June, pending further negotiations.

Late in May, SKF offered a total embargo of aircraft bearings and a 50 percent reduction in other types of bearings between 5 June and 1 September 1944. This proposal was being considered by the American government when the invasion came on 6 June. The following day, SKF made a more liberal offer which formed the basis for the final agreement, the terms of which follow: The covered period is 12 May--12 October 1944; SKF shall cease the export of aircraft bearings and shall reduce by approximately 70 percent exports of other types of bearings; the Allies shall assume the unfilled German and satellite orders for \$5,175,000 and shall place additional orders with SKF for approximately \$2,500,000; the Allied governments reserve freedom of

SECRET

SECRET

action at the expiration of the covered period (in order to prevent SKF from exporting the balance under the War Trade Agreement between 12 October and 31 December 1944).

Conclusion: The agreement was a compromise. It represents a 70 percent reduction from 1944 exports as permitted by the War Trade Agreement and a 90 percent reduction from 1943 exports.

The ball bearing question revealed fissures in the United Nations diplomatic front. The American interest in a complete immediate embargo was weakened by British and Russian hesitation, motivated, apparently, by their desire to trade with Sweden in the post-war period. There has been no evidence of German efforts to retaliate for Sweden's concessions to the Allies.

Sweden has in the past established a high position for itself in American public opinion. The ball bearing controversy revealed Sweden as an integral part of the German war economy and produced severe criticism for Sweden in the American press. This criticism has made for realism in the American attitude toward Sweden.

SECRET

SECRET

THE SWEDISH BALL BEARING NEGOTIATIONS

I. THE ANTI-FRICTION BEARING INDUSTRY

A. The SKF Combine

Svenska Kullagerfabriken, usually known as SKF, was founded in 1907 by Sven G. Wingquist, inventor of the self-adjusting bearing and present chairman of the board of SKF. The expansion of the company since 1907 has been rapid and world-wide. By 1932, the company claimed control over 70 to 80 percent of world bearing markets, exclusive of the United States. SKF is an international combine which exercises dominance over the production and marketing of ball and roller bearings in world markets and interlocks financially with Swedish and continental industry. Control of the combine is centered in Gothenburg, Sweden, and is maintained by financial controls, through patents, and by the concentration of the manufacture of special tools, machinery, and ball bearing steel, and of technicians in Sweden. SKF has 15 factories in Sweden, Germany, Czechoslovakia, France, England, and the United States, 60 subsidiary companies, and 185 sales offices all over the world. Many of the sales offices¹ distribute the products of other large Swedish firms.

1. OSS, Economics Subdivision, "Personnel of SKF, Sweden", May 1944; Ministry of Economic Warfare, Report on Target Potentialities of the Axis Anti-friction Bearing Industry, 10 January 1944, "Prewar history of the German ball-bearing industry", p. 1, "War-time developments in production", p. 6; OSS confidential source; PM, 14 May 1944. The series of articles on SKF in PM written by I.F. Stone contain information derived from a United States government source.

SECRET

SECRET

The table which follows shows the various manufacturing units in the SKF combine, their location, and the most recent figures available on the number of workers engaged in bearing production:

SECRET

Table I. THE SKF COMBINE

<u>Firm</u>	<u>Location</u>	<u>Number of Workers on Bearings</u>
Svenska Kullagerfabriken, A.B.	Göteborg, Sweden	5,000
Vereinigte Kugellagerfabriken A.G.	Schweinfurt, Germany	10-11,000
Fichtel & Sachs	Schweinfurt, Germany	500 (?)
SKF (Norma)	Stuttgart-Ganstatt, Germany	3,000
Vereinigte Kugellagerfabriken A.G.	Erkner, Germany	2-3,000
Vereinigte Kugellagerfabriken A.G.	Berlin-Neukölln, Germany	2,000 (?)
SKF	Purstein, Czechoslovakia	500
Cie. d'Applications Mécanique	Paris-Ivry, France	1,500
Cie. d'Applications Mécanique	Paris-Bois Colombes, France	1,500
Société Anonyme des Roulements à Aiguilles Nadella	LeVallois-Perret (Seine) & Riceamerie, France	?
Skefko Ball Bearing Co., Ltd.	Luton, Beds, England	?
SKF Industries, Inc.	Philadelphia, U.S.A.	9,000

Source: Ministry of Economic Warfare, op. cit., "War-time developments in production", p. 10; Jürgens-Meyer, Die Walzlager, Druck der Universitäts-druckerei, Würzburg, undated, pp. 497-498; Moody's, Industrials, 1943.

SECRET

The largest group of facilities in one country in the SKF system is in Germany and relations between the parent company and its German subsidiaries have always been close. Prior to the present war, 60 percent of SKF production was in Germany. In 1929, Björn Gustaf Prytz, (at that time manager of SKF and now Swedish Minister to London), cartelized the German bearing industry. Earlier there had been seven firms in the industry, none of which had great resources. Utilizing the patents which SKF owned, he organized two combinations, Vereinigte Kugellagerfabriken A.G. and Kugelfischer. VKF is a subsidiary of SKF and is the largest producer in the German bearing industry; Kugelfischer is said to be jointly controlled by German and SKF interests. The cartel eliminated competition, allocated production, fixed prices, and standardized types. The cartel was centered in Schweinfurt, but it rapidly extended its control over the outlying segments of the German bearing industry.¹ A German source states that in 1939 the majority stockholder of VKF was SKF and that of the 11 members of the board of VKF, two were Swedish and nine German. The management was half Swedish and half German.²

1. Department of Justice, Economic Warfare Unit, "Report of European Anti-friction Bearing Industry," 6 May 1943, pp. 22-24; OSS source.

2. Handbuch der Deutschen Aktien Gesellschaften, 1939, vol. III, p. 2777.

SECRET

SECRET

SKF gained control of the French bearing industry in the early thirties by buying out the two largest companies, Compagnie d'Applications Mécaniques and Malicet and Blin. It was then in a position to develop a cartel in the rest of the industry by the threat of a price war. It dictated production quotas and prices for the whole industry. Production was limited, SKF preferring to meet part of French demands out of its Swedish production. This restriction on French production left France short on bearing facilities when the war broke out in 1939. The only bearing concern of any size in Italy is RIV, a subsidiary of Fiat. Since there is a small market for precision bearings in Italy and RIV had the support of the Fiat organization, SKF agreed not to enter that market, in return for which RIV agreed to purchase precision bearings exclusively from SKF. In addition, the two firms agreed to share their Latin American markets, SKF selling precision bearings and RIV selling lower-grade bearings. Through its British subsidiary, Skefco, SKF tried to control the bearing market in Britain, but failed due¹ to the strength of the competition and differing standards. In this country, SKF Philadelphia is one of the three or four largest producers and provides about 10 percent of the American² industry's production.

1. Ibid., pp. 24-263
2. OSS source

SECRET

SECRET

The real ownership of the parent SKF is difficult to determine. The company contention is that its voting stock is 99.58 percent Swedish-owned. It has a total of 759,723 shares of A-series stock, with one vote per share, outstanding, of which 757,088 shares are claimed to be owned by Swedes. An official of the company who is in a position to know reports that the largest holder of A-series shares is A.B. Investor, a holding company for Stockholms Enskilda Banken, which controls 8 to 10 percent of the shares, obtained from the Ivar Kreuger estate. This bank is controlled by the Wallenberg family. In addition it has 518,490 B-series shares, with $\frac{1}{1000}$ vote per share, outstanding, all of which are claimed to be Swedish-owned. Of the B-series, 240,000 shares were issued in 1929 to finance the creation of the VKF; 85,000 shares were released to the German interests in payment and the remainder were sold on the London, Paris, and New York exchanges. There is strong evidence that a large proportion of the B-series shares still are German-owned or controlled.¹

American experts in Stockholm and Washington are skeptical² of the Swedes' story of Swedish control. The use of dummies in an international financial arrangement of this type is common.

1. OSS, #32612, 13 May 1944; OSS confidential source.
2. OSS, #32612, 13 May 1944; Stockholm via London wire #1723, 15 May 1944; Foreign Economic Administration, Blockade Division; OSS confidential source.

SECRET

SECRET

The Swedish government itself in 1935 revealed this method of control by Krupp of the Bofors armaments concern through a dummy corporation and passed legislation which led to the termination of foreign ownership of Swedish armaments firms. In the Swedish Riksdag in April 1935, Prime Minister Hansson stated: "A very fundamental part of the capital of A.B. Bofors belongs to the Krupp firm in Essen," 63,000 shares of a total of 198,000 shares were in the hands of the Krupp dummy company A.B. Boforsintressenter. He went on to say that the Swedish aircraft concern "A.B. Flygindustri in Linhamm is nothing more than a branch of the German Junkers works." The founder and chairman of the board of SKF, S. G. Wingquist, is the chairman of Bofors (1917-to date) and has many interests in the aircraft industry. An American expert recently made the "informed guess" that SKF is 70 percent Swedish- and 30 percent German-owned and-controlled.

SKF Industries, Philadelphia, was established during World War I as the successor to Hess and Bright, in part, a German-owned bearing firm. It has been suggested that it may have been formed to prevent seizure by the Alien Property Custodian at that time. The present ownership of SKF Industries, Philadelphia, is almost entirely Swedish. There are 103,459 shares of stock outstanding, of which 83,553 are owned by SKF,

1. Riksdagens Protokoll, Vid Lagtima Riksmötet, 1935, Andra Kammaren, 3 April 1935, pp. 19, 28.

2. OSS, Economics Subdivision, "Personnel of SKF, Sweden".

3. Foreign Economic Administration, Blockade Division.

SECRET

SECRET

Gothenburg, 18,997 by Gamlestadens Fabrikers A.B., Gothenburg (textiles and textile machinery, interlocking directorate with SKF), 632 by Wingquist, 110 by Glinstedt (assistant manager SKF Gothenburg) and 167 by William Batt, Mrs. Batt,¹ and several other Americans.

Early in 1940, Marcus Wallenberg of Stockholms Enskilda Bank, A.B., which is reported to own the largest single block² of SKF stock, came to the United States. Wallenberg arranged for the purchase for German interests of German bonds held in the United States, and took over the controlling German interest in the notorious American Bosch Corporation in order to forestall seizure by the Alien Property Custodian. This corporation was taken over in May 1942 despite its protest that it was Swedish-owned.³ Wallenberg also established a voting trust for the stockholders of SKF Industries, Philadelphia, and William Batt was named sole trustee to provide for an "American" front, the arrangement to be revocable at any time at the option of the depositors. This is a device frequently used by foreign

1. OSS source.

2. There are two Wallenberg brothers, Marcus and Jacob, who control Stockholms Enskilda Bank and have widespread industrial interests. Jacob is on the board of SKF. "Jacob Wallenberg represents the family's interests in negotiations with German business men and political authorities, while Marcus does likewise in negotiations with British and Allied officials." (OSS, Memorandum, "Panel on Sweden", 16 April 1944.) In view of his "pro-Allied" attitude, Marcus was selected by SKF as its representative in the negotiations with the United States and Great Britain on the ball bearing question in April-June 1944.

3. OSS source; Stockholm via London wire #1723, 15 May 1944. William Batt, of SKF Industries, Philadelphia, was on the board of American Bosch, 1935-1940. He resigned in 1940, when he began work for the National Defense Advisory Commission. (PM, 5 June 1944.)

SECRET

SECRET

corporations to prevent seizure of their property by the Alien Property Custodian.¹ Batt ceased exercising full-time control over SKF Industries in 1940, and it is reported that the company has since been run by Count Hugo von Rosén, who is a fourth or fifth cousin of the Swedish Nazi, Count Eric von Rosén, whose wife's sister was Herman Goering's first wife. Hugo von Rosén disclaims association with his distant relative's political views.² The legal side of the arrangement establishing the voting trust was handled by John Foster Dulles of Sullivan and Cronwell.³

SKF Industries, Philadelphia, produces 10-11 percent of the anti-friction bearing output of the United States. Of the present production of SKF Industries approximately 95 percent is going to meet American needs and 5 percent is exported to Latin America. There is no evidence that any of it is reaching the Axis.⁴ Before the war, as was pointed out above, the SKF cartel divided the Latin American market between SKF, Gothenburg, and RIV (Fiat.) In 1940, Count Hugo von Rosén stopped in Turin on his way to the United States and arranged for the American SKF Industries to take over the Latin American market, since neither of the normal sources would be able to make deliveries

1. OSS source; OSS confidential source.

2. Holger Carlsson, Nazismen i Sverige, Stockholm, 1942, pp. 89-90; Time, 12 June 1944, p. 6; Joachim Joesten, Stalwart Sweden, New York, 1943, pp. 40-41; OSS confidential source.

3. PM, 4 June 1944.

4. OSS source.

SECRET

SECRET

through the British blockade. There has been criticism of this arrangement in the United States on the grounds that it is a cartel arrangement to which an American subsidiary of a foreign firm is a party, which is designed to protect the markets of foreign producers (RIV an enemy corporation) at a time when American producers might have competed for those¹ markets.

When Denmark and Norway were invaded on 9 April 1940, there was general apprehension in Sweden lest that country suffer the same fate. The management of SKF, Gothenburg, was concerned that the Germans might obtain complete control of SKF stock as a result of the prospective invasion of Sweden. SKF acted swiftly to forestall this possibility. On 16 April 1940, SKF established the Panrope Corporation, S.A., a Panamanian holding company, all of whose 900 shares of stock² were owned by SKF. On 12 June, an agreement was entered into between SKF and Panrope by which SKF transferred to the holding company the shares of stock held by SKF in all its subsidiaries except those located in the United States, Germany, and German-occupied territory. SKF also transferred to Panrope title to

1. OSS source; OSS confidential source; Foreign Economic Administration, Blockade Division; FM, 15, 17 May, 4 June 1944.

2. The material on the Panrope Corporation is from OSS confidential source.

SECRET

SECRET

all accounts payable, inventories, and all the other property belonging to SKF, Gothenburg, plus \$1,000,000 in cash. In return Panrope executed a note for \$8,500,000 payable to SKF. The officers of Panrope, elected on 27 April 1940, were Wm. L. Batt--President; Einar Glimstedt (attorney for SKF, Gothenburg)--Vice-President; Sixten F. Wollmar (an American citizen of Swedish extraction who is an officer of SKF Industries, Philadelphia)--Vice-president; and Thos. W. Dinlocker (Secretary-Treasurer of SKF Industries, Philadelphia)--Secretary-Treasurer. The actual control of Panrope, however, was in the hands of Count Hugo von Rosén and he was responsible only to SKF, Gothenburg. He succeeded Batt as president of Panrope on 26 October 1942.

In order to cover up its interest in the Panrope Corporation, SKF entered into a trust agreement with the City Bank Farmers Trust Company of New York on 17 June 1940, whereby the Bank was to act as the trustee for SKF with the advice and consent of a committee and council. The committee was composed of Batt, von Rosén, and Wollmar; the council was composed of Wollmar, W.F. Boström (Swedish Minister to the United States), and Harry Erickson (Commercial Counsellor of the Swedish Legation in Washington). This trust agreement was to remain in force until 31 December 1945 unless terminated sooner.

The utilization of the Panrope holding company by SKF was short-lived. On 2 August 1940, an agreement was made

SECRET

between SKF, Gothenburg, and Panrope by which Panrope returned to SKF all shares of stock in SKF and other property with the exception of shares and properties located in the British Dominions (excluding the United Kingdom). The \$8,500,000 note was reduced to \$1,310,000.

The reason for the virtual abandonment of the Panrope holding company is not set forth in available material, but speculation is in order. Since SKF set up the holding company in fear of German control of SKF, Gothenburg, as the result of an invasion of Sweden, the holding company must have been abandoned because SKF had cause to believe that its properties were no longer in danger of being seized. Either SKF was informed by the Germans or its representatives in Germany that Sweden would not be invaded or it was advised that if Sweden was invaded SKF properties would not be endangered. It was at this time, the summer of 1940, that SKF entered into agreements with the Germans, with the approval of the Swedish government, for a very substantially increased volume of bearing deliveries to Germany, in violation of the 1939 War Trade Agreement between Sweden and Great Britain by means of which¹ bearing exports were to have been limited to the 1938 level.

1. See below, p. 28.

The members of the board of directors and the managers of the parent SKF have close connections with big business and finance in Sweden and in Europe, especially Germany. There follows a complete list of the present board of directors and management of SKF (with the addition of B. G. Prytz, former manager of SKF) with their financial connections insofar as¹ the latter are available.

Sven G. Wingquist, Chairman of the Board. Formerly an engineer with Gamlestadens Fabrikers A.B., where he invented the self-adjusting bearing, 1907. Wingquist has been chairman of A.B. Bofors since 1917, during the period when it had close connections with Krupp and he was a member of the syndicate that bought out the Krupp interest in Bofors in 1935, when the Swedish government exposed those interests and forced Krupp out. He is also chairman of Nydqvist & Holm A.B. (locomotives, railroad cars, motors), Svenska Flygmotor A.B. (aircraft engines), and A.B. Volvo (automobiles). Member of the board of Förenade Flygverkstäder A.B. (aircraft) and Svenska Aeroplan A.B. (aircraft and parts).

Knut J. Mark, Vice-chairman. Chairman of Gamlestadens Fabrikers A.B. (textiles) and director of Götaverken A.B. (shipbuilding).

1. Sveriges Industriförbund, Svensk Industri Kalender, 1944, Stockholm, pts. I, II; OSS, Economics Subdivision, "Personnel of SKF, Sweden", May 1944; OSS, Western European Subdivision, "SKF Personnel"; PM, 4 June 1944.

SECRET

Assar T. N. Gabrielsson, Director. Plant manager of A.B. Volvo (automobiles) since 1926. Chairman of Ulvsunda Verkstäder A.B. (rubber) and Köpings Mek. Verkstads A.B. (foundry). Director of Svenska Flygmotor A.B. (aircraft engines), Svenska Tändsticks A.B. (matches), and A.B. Volvo (automobiles).

Jacob Wallenberg, Director. Chairman of Skruv A.B. (i Uddeholm) (screws), Aug. Stenman A.B. (iron), Svenska Tändsticks A.B. (matches), Ulfshytte Jernverks A.B. (railroad). Director of A.B. Separator (cream separators) Stora Kopparbergs A.B. (iron ore), A.B. Storviks Sulfit (cellulose), Yngeredsfors Kraft A.B. (power), Wikmanshytte Bruks A.B. (steel) and Stockholms Enskilda Banken (banking). The Wallenberg brother who represents the family's interests in negotiations with the Germans.

Sten Erik Wetter, Director. Formerly an officer in the Italian Navy. Director of Swedish-Orient Line, Swedish-East Asia Line, Swedish-American-Mexican Line. Director of Sveriges Allm. Exportfören (export association).

Harald Hamberg, General Manager and Director. With SKF since 1911 in the following places: Stockholm and Duisburg, Germany, 1911-1913; Gothenburg, Sweden, 1915; United States and Canada, 1915-1918; Cuba, 1919-1920; Vienna, 1920-1924;

SECRET

SECRET

Czechoslovakia, 1924-1931; Manager VKF, Germany, 1932-1941;
Gothenburg, Sweden, 1941-to date.

Joel Larsson, Assistant Manager. Director of
Jernkontoret (iron and steel association), Krangede A.B. (power),
Norbergs Grufförvaltning (power), Skogens Kol A.B. (wood products),
Bruks-industriförbundet (industrial association), Mossgruvornas
Gruv A.B. (iron ore).

Einar Glimstedt, Assistant Manager. Attorney for SKF
since 1915. Director of Bofors (armaments); A.B. Carma
(clothing); Nydqvist & Holm A.B. (locomotives); and officer
of the dummy corporation, A.B. Boforsintressenter, which
represented the Krupp interest in Bofors prior to 1935.

Björn Gustaf Prytz, Manager of SKF 1919-1937. Creator
of VKF, Germany. Formerly director of Svenska Tändsticks A.B.
(matches) and Jönsereds Fabrik A.B. (textiles). Resigned
connections to become Swedish minister to London, 1938-to date.

SKF is an international concern with business interests
in both belligerent camps. As such, it is typical of specialized
Swedish industry which cannot find a sufficient market for its
products within Sweden and, therefore, must engage heavily in
world trade with economic commitments in many countries.

Dagens Nyheter has pointed out that SKF, like the rest of
Swedish industry, must make wartime decisions in light of the
probable outcome of the war and the victor's attitude toward

SECRET

SECRET

the company's overseas interests.¹ As the fortunes of war shift, the policies of SKF shift with them.

B. Relations between the Swedish Government and SKF

The relations between the Swedish government and the SKF organization are very close.² The Swedish government has traditionally played a large role in the nation's economy and has actively sought to further development of Swedish industry. There is little of the antagonism between government and business that exists in the United States.³ Despite the fact that the present coalition government is dominated by the Social Democrats, it has shown no reluctance to deal with SKF on a friendly basis. The Foreign Minister, Christian Günther, is a career diplomat with no party affiliation and conservative inclinations,⁴ who received his present post in December 1939 when Richard Sandler was ousted at German insistence. Sandler was anti-Nazi and proposed a Scandinavian defensive alliance. Günther has not been criticized by the Germans. In the negotiations between

1. Stockholm via London wire #2158, 15 June 1944.

2. OSS confidential source. The documentary evidence to support this statement is only partially available here. There is little direct evidence of the relations between SKF and the Swedish government in Sweden and the relations must be deduced from their actions. There is a substantial amount of evidence concerning the relations of SKF and the Swedish government outside of Sweden.

3. Democratic Sweden, an Economic, Political, and Social Survey, Margaret Cole and Charles Smith, eds., New York, 1938, pp. 125-145.

4. CID #51342.

SECRET

SECRET

SKF and American representatives in Sweden in the spring of 1944, it was clear to the latter that the SKF management would take no important action without prior clearance with the Foreign Minister.¹ Marcus Wallenberg, the banker who often represents SKF interests, during most of the war has been chairman of the Stockholm Joint Standing Commission, an intergovernmental agency for the administration of the Anglo-Swedish War Trade Agreement, on which he is the Swedish government's leading representative.²

The relations between the Swedish foreign service and the SKF organization abroad are so close that they are sometimes indistinguishable. The Swedish minister to London, one of the key capitals in the ball bearing controversy, is Björn Gustaf Prytz, who was manager of SKF 1919-1937.³ The daughter of the Swedish minister to the United States, W.F. Boström, is married to Sixten Tollmar, an important official of SKF Industries, Philadelphia, who was sent to Philadelphia since the outbreak of the war to look after Gothenburg's interests.⁴ In the trust arrangement with the City Bank Farmers Trust Company to cover SKF control of the Panropa Corporation, one of the bodies charged

1. Foreign Economic Administration, Blockade Division.
2. CID #18195-S; CID #33020-C; CID #40302-C.
3. DNB, 13 May 1944. (News Digest #1447); see above, p. 15.
4. CSC confidential source.

SECRET

SECRET

with giving advice and consent to the trustee, consisted of Wollmar, Boström, and Harry Erickson, the Commercial Counsellor of the Swedish Legation in Washington.¹ The Swedish ministers and consuls all over the world place their diplomatic pouches and couriers at the disposal of SKF for the transmission of documents and mail between the various branches of the company. For example, the transmission of shares of stock in the Panrops deal was handled through the foreign service.² No fewer than 12 of SKF's representatives in various parts of the world serve at the same time as Swedish consuls.³ Of these, six are in Latin America. As the representative of SKF in the Western Hemisphere, Count Hugo von Rosen has made repeated trips to Latin America and has reported to the parent company in Gothenburg on the conduct of Swedish ministers in that area with recommendations that those who were not properly serving the company's interests be removed.⁴ It is plain, therefore, that SKF is able to obtain the support of the Swedish government in matters affecting the company's interests.⁵

C. War Developments: Belligerents.

The war has affected the bearing industries in the belligerent countries by greatly increasing the demand and by

1. See above, p. 11.
2. OSS confidential source.
3. OSS confidential source.
4. OSS confidential source.
5. OSS confidential source.

SECRET

SECRET

changing its composition. In Britain the number of workers has doubled since 1939 and in the United States the number has trebled in the same period. In peacetime the bulk of the demand is for bearings of the medium sizes because the automobile industry is the largest consumer. In wartime demand for the medium sizes falls off and is replaced by demand for both larger and smaller sizes. Increased production of heavy-duty trucks, armored vehicles and aircraft absorbs the larger sizes while great quantities of small bearings are needed by the aircraft industry.¹

In Great Britain the 1943 distribution of production according to size is demonstrated in the following table:

Table II. GREAT BRITAIN. BEARING CONSUMPTION BY SIZE.

<u>Bearing Size</u>	<u>Percent of total</u>
Small	68.4
Small medium	20.2
Large medium	8.8
Large	3.1
Very Large	1.6

The major belligerents have adopted similar policies in expanding production; they have enlarged existing plants instead of constructing new ones. This policy has been followed because the industry requires a nucleus of engineers

1. This section is based on Ministry of Economic Warfare, op. cit., "Wartime developments in production," pp. 1-11, and "Use-pattern of ball-bearing output in war," pp. 1-4, except when other sources are cited.

SECRET

and skilled laborers who are difficult to disperse and the economic advantages of concentration have outweighed the disadvantages of concentration in offering targets to enemy bombers. Concentration has been practiced in Germany for these special reasons: (1) The manpower shortage has led to production in large units in many specialized industries; (2) the Germans underestimated the danger of air attack; (3) Germany had access to and strong bargaining power with the neutral producers of Sweden and Switzerland; and (4) Germany controlled the production of occupied Europe.

The German bearing industry has grown from an employment of 25,000 persons in 1939 to an employment of 36,000-39,000 in 1943. Axis Europe, exclusive of the neutrals, has added 13,750-14,750 workers, making a total working force available to the Germans of 49,750-53,750 persons. Of this total, 40-45 percent in 1943 were located in Schweinfurt, which, in addition, produced special types of bearings that made it of even greater importance.

The following table compares the monthly bearing production of the United States, Axis Europe, and the United Kingdom in 1943:

Table III. BEARING PRODUCTION

	<u>Monthly bearing production</u>
United States	30,000,000
Axis Europe (est.)	3,500,000-9,000,000
United Kingdom	4,000,000

SECRET

The use pattern of ball bearing production is shown for the United States and Great Britain in 1943 in the following table:

Table IV. USE PATTERN OF BEARING PRODUCTION

<u>Use</u>	<u>US, percent of total</u>	<u>Great Britain, percent of total</u>
Aircraft	50	40.8
Ground Forces	23	30.8
Naval	6	1.6
Civilian	14	21.2
Export	5	3.6

From this information and from a number of sampling studies made on German aircraft, one expert source concludes that German military uses definitely consume more than 50 percent and probably consume more than 60 percent of German-controlled production.

The SKF combine provides a large share of the bearings for the German war machine. A sample early in 1943 of 1849 ball and roller bearings selected at random from a bearing dump taken from German planes shot down over Britain revealed that 60.2 percent were produced by SKF subsidiaries in Germany; only 3 small bearings were from SKF, Sweden. A further sample of 217 bearings from the same source in December 1943 showed that 57 percent were produced by German subsidiaries of SKF and none were produced by SKF, Sweden. Similar results were obtained in samples made of aircraft engines and tanks.

SECRET

Two further samplings are available. A sample of more than 1800 airframe ball bearings taken from German bombers brought down in Britain January-March 1944 reveals that 61.6 percent were produced by SKF subsidiaries in Germany, Czechoslovakia, and France, and that 2.1 percent were produced by SKF Sweden. Of the whole sample, 53.8 percent were manufactured in 1942 and most of the rest prior to that year.¹ Another sample of 633 marked bearings taken from German aircraft brought down in Italy in the summer of 1943, including fighters as well as bombers, showed that 51.3 percent of the bearings were produced by German, Czech, and French subsidiaries of SKF and 0.6 percent were produced by SKF Sweden. Almost all these bearings were produced during the period 1939-1942.²

D. Bomb Damage

The vulnerability of the Axis bearing industry was capitalized on by heavy bombing attacks and sabotage in the last half of 1943. USAAF raids were carried out against Schweinfurt on 17 August and 14 October, against Paris on 15 September and 31 December, against Turin on 8 November and 1 December, against Villar Perosa, Italy, on 9-10 November, and against Annecy, France, on 11 November 1943. In addition, sabotage was carried out against French plants.³ It has been

1. American Embassy, London, Economic Warfare Division, "Analysis of a Sample of Airframe Ball Bearings from German Aircraft," 21 April 1944, pp.1,5,9.
2. Ibid., Appendix I.
3. OSS, Economics Subdivision, Military Supplies Section.

SECRET

estimated that Axis production had been reduced 25 percent in January 1944 as compared with mid-1943.¹ A later estimate is 9 percent for August 1943, 6 percent for September, 25 percent for October, 35 percent for November, and 26 percent for December 1943.²

E. Swedish Exports to Germany

Swedish sources have estimated that Sweden provided Germany with 3 percent of total bearing needs prior to the bombings in mid-1943.³ It is estimated by an Allied source that Swedish exports after the first series of bombings at the end of 1943 accounted for 7.9 percent of German supplies.⁴ Swedish sources contend that 6 to 8 percent of Germany's needs were being met by Swedish exports in April 1944.⁵ Indications are, however, that Sweden in April provided Germany at the rate of 12 percent of her 1944 needs.⁶

The tables which follow reveal the volume and destination of Swedish exports of ball and roller bearings 1938-1944.

1. Ministry of Economic Warfare, op. cit., "Effects of attacks on enemy ball-bearing supplies," pp. 1-4.

2. OSS, Economics Subdivision, Military Supplies Section.

3. Oral statement to the writer by Swedish Vice-Consul Albin Widen at Minneapolis, April 1944; OSS #31826, 22 April 1944.

4. Ministry of Economic Warfare, op. cit., "Effects of attacks on enemy ball-bearing supplies," p. 4

5. OSS, #31826, 22 April 1944.

6. OSS, #31826, 22 April 1944; #31732, 22 April 1944.

SECRET

Table V. SWEDISH EXPORTS OF BALL AND ROLLER BEARINGS AND PARTS, 1938 - 1942

Destination	1938		1939		1940		1941		1942	
	Tons	000 Kr.	Tons	000 Kr.	Tons	000 Kr.	Tons	000 Kr.	Tons	000 Kr.
Great Britain	1,524	3,646	1,791	4,978	Not		1,292	3,935	1,716	5,542
Other Allied Countries	2,919	12,746	2,257	10,342	Availa-		1,847	8,364	169	1,429
Total, Allies	4,443	16,392	4,048	15,320	ble		3,139	12,299	1,885	6,971
Germany	1,396	6,914	1,641	8,340			5,405	25,231	5,564	34,232
Other Axis Europe	2,978	16,216	2,491	14,814			2,207	16,555	2,154	17,723
Total, Axis Europe	4,274	23,130	4,132	23,154			7,612	41,786	7,718	51,955
Japan	1,947	9,126	1,615	8,232			554	3,067	19	287
Japs: Occupied territory	73	195	322	1,595			252	1,350	---	---
Total, Axis Asia	2,020	9,321	1,937	9,827			806	4,417	19	287
Neutrals	407	2,862	385	2,983			427	3,965	632	6,569
Total Exports	11,252	51,735	10,507	51,316			11,990	62,489	10,256	65,788

Source: Ministry of Economic Warfare, op. cit., "Appendix E. German trade in ball-bearings with Sweden", p. 3.

SECRET

SECRET

SECRET

Table VI. SWEDISH EXPORTS OF BALL AND ROLLER BEARINGS AND PARTS, 1943-1944

1943	Germany		Total, Axis Europe	
	Tons	000 Kr.	Tons	000 Kr.
January	10	15	107	1,029
February	813	6,132	1,054	8,894
March	265	1,773	516	4,785
April	374	3,229	536	5,210
May	730	5,797	977	8,867
June	557	3,255	771	5,559
July	294	2,498	510	5,503
August	388	3,010	566	5,203
September	490	3,775	629	5,414
October	676	6,242	792	7,450
November	861	5,751	988	6,648
December	673	3,813	799	5,183
Total	6,131	45,433	8,245	69,745
<u>1944</u>				
January	210	2,312	227	2,518
February	291	2,892	329	3,385
March				1,692

Source: Ministry of Economic Warfare, op. cit., "Appendix E. German trade in ball-bearings with Sweden", p. 4; OSS, #29142, 9 February 1944, #30123, 16 March 1944; Foreign Economic Administration, Blockade Division.

SECRET

SECRET

The tables show clearly the steady and growing contribution which SKF, Gothenburg, has made to the German war effort. If Swedish exports to Germany by volume are given the index number 100 for the peacetime year 1938, exports to Germany since are demonstrated in the following index numbers: 1939--118, 1940--not available, 1941--387, 1942--399, and 1943--439. Exports by volume to the rest of Axis Europe have shown practically no change since 1938. Exports by value to Germany reveal an even greater increase because of the rise in prices during the war.

The Swedish contribution to Germany's bearing needs has been more impressive qualitatively than these figures suggest. Bomb damage at Schweinfurt most seriously affected ball and roller making capacity. In 1942, the Swedes shipped 66 tons of balls and rollers, while in 1943 such exports were increased to 363 tons, almost all in the last three months of the year. The increase of almost 300 tons was sufficient to provide balls and rollers for about 3,000 tons of complete bearings, approximately one month's¹ output of the Schweinfurt plants. Overall bearing exports were cut sharply in the first few months of 1944. It is the

1. OSS, Economics Subdivision, Military Supplies Section, Memorandum, untitled, undated; OSS #27948, 25 January 1944.

SECRET

contention of the Army Air Forces, however, that Swedish exports of air-frame bearings in January 1944 were sufficient to meet 70 percent of German needs for that month. There is evidence that these exports were continued on about the same level in February 1944.¹ It is difficult to avoid the conclusion that there is a close connection between the raids and this increase in exports.

On the other hand, the SKF in Sweden has refused to accept any new orders from Germany since October 1943. This despite the fact that the Germans made repeated efforts in November and December 1943 to place orders for balls and in 1944 for roller bearings. A large part of the deliveries made since the bombings in October have been on orders placed in 1942.²

1. OSS, #31450, 15 April 1944, #31551, 18 April 1944.
2. OSS, #32293, 4 May 1944; #32356, 6 May 1944.

SECRET

II. DIPLOMACY OF THE BALL BEARING QUESTION

A. Background

In the Anglo-Swedish War Trade Agreement of 1939, Sweden agreed to maintain as the maximum limit of her annual wartime exports of ball bearings to Germany the amount exported in 1938.¹ The Swedes did not honor this agreement; exports to Germany after 1940 were far in excess of pre-war levels.² To counter this trend and to meet the need for bearings in Britain, the British developed a policy of pre-emptive purchases in Sweden toward the end of 1942. Particular care was taken to place orders for military types which the Germans wanted, and in some types SKF capacity was tied up till mid-1944. The bulk of the orders were for small sizes and loose balls because of the transportation difficulties; they had to be flown out or be brought out in small boats.³ The British allocated 1,000,000 pounds for pre-emptive purchases in 1942-1943. In the summer of 1943, when it appeared that the Germans would soon attempt to increase their imports from Sweden, an additional 1,000,000 pounds was allocated. By this time, the urgency of British needs had slackened, and the effort, therefore was entirely one of pre-empting capacity needed

1. CID #18195-B.

2. Ministry of Economic Warfare, op. cit., "Appendix E. German trade in ball bearings with Sweden", p. 1; see above, p. 24.

3. New York Herald Tribune, 18 July 1944, p.1.

SECRET

SECRET

by Germany. Orders were placed for small bearings, special types used in armament, and particularly those types used in aircraft. Orders were also placed which required a large amount of retooling, thereby slowing up production.¹ The pre-emption policy, however, was not effective in preventing the export to Germany of small size bearings in the last half of 1943.²

In the summer of 1943 the British and American Governments, on the one hand, and the Swedish Government, on the other hand, signed the 1944 War Trade Agreement. An effort had been made to get the Swedes to reduce exports to German Europe for the remainder of 1943, but the Swedes were unwilling to do so.³ They did, however, agree to a substantial reduction for the calendar year 1944, as is shown in the following table:

Table VII. WAR TRADE AGREEMENT, 1944. SWEDISH EXPORTS TO GERMAN EUROPE.

	Actual Exports 1942	Actual Exports 1943	Agreed Maxi- mum 1944
Ball bearings & parts	31,062,000 kr.	not available	19,682,000 kr.
Roller bearings & pts	20,550,000	" "	9,338,000
Balls & rollers	343,000	" "	241,000
Total	51,955,000 kr.	69,745,000 kr.	29,261,000 kr.

Sources: Ministry of Economic Warfare, op. cit., "Appendix E. German trade in ball bearings with Sweden", p. 1.

1. Ibid., "War-time developments in production", p. 7; "German trade in ball bearings with Sweden", p. 1.
2. OSS, #29232, 26 February 1944.
3. Ministry of Economic Warfare, op. cit., "Appendix E. German trade in ball bearings with Sweden", p. 1.

SECRET

The War Trade Agreement provided for a reduction of exports by value to almost the 1939 level. Since prices have risen during the war, the reduction in volume is more severe. If 1943 prices do not rise in 1944, the volume provided for in this agreement is in the neighborhood of 3,000 tons. This compares with 9,245¹ tons in 1943, 7716 tons in 1942, and 4132 tons in 1939.

After the first raid on Schweinfurt in August 1943, the Germans attempted to place large orders with SKF, offering up to three times the prices paid by the British. Their orders were blocked by the British pre-emptive purchases which had already absorbed SKF capacity. In November, a German trade delegation arrived in Stockholm to prepare for the 1944 trade agreement. They were then told of the Anglo-American-Swedish agreement, which produced a violent reaction. The German trade² delegation left Stockholm in November.

After the heavy Schweinfurt attack of 14 October, the Germans instructed Harald Hamberg, managing-director of SKF, Gothenburg, to come to Schweinfurt. They intimated that the company's German properties would be confiscated if he did not³ comply. Evidence is not available on whether or not Hamberg

1. Ibid., p. 1.

2. Ibid., p. 2.

3. Ibid., "Appendix J. Enemy reactions to attacks on ball bearing factories," p. 1.

SECRET

visited Schweinfurt.¹ The Swedish Foreign Office denied that any SKF technicians went to Germany to help reconstruct the Schweinfurt plants.² The Germans imposed restrictions on Swedish shipments to neutrals, i.e., Spain, across German-occupied territory. Pressure was exerted by the German government on Hungarian importers to get them to act as dummies for German purchases in Sweden.³

In December 1943, the German trade delegation returned to Stockholm and again made demands for an increase in bearing exports. Ribbentrop was now personally interested in the negotiations, to the displeasure of the Swedish and American governments. The Germans also exerted pressure on Swedish businessmen. The Swedes, however, were firm and the Germans again broke off the negotiations. They accused the Swedes of adopting an unneutral attitude and of submitting to pressure from the enemies of Germany.⁴

The Swedish-German Trade Agreement for the calendar year 1944 was finally consummated on 10 January 1944.⁵ It limited Swedish ball bearing exports to Germany in 1944 to 21,000,000 kr. This was well within the Anglo-American-Swedish agreement limitation

1. American government authorities have been critical of Hamberg and other officials of the Swedish SKF for their attitude of co-operation with Germany. (OSS, #30972, 3 April 1944; Foreign Economic Administration, Blockade Division).

2. American-Swedish News Exchange, Radiogram från Sverige, No. 42, 10 April 1944.

3. Ministry of Economic Warfare, op. cit., "Appendix J. Enemy reactions to attacks on ball bearing factories," pp. 1-2.

4. *Ibid.*, pp. 3-4; OSS #28330, 17 December 1944.

5. Swedish Home Service, 10 Jan. 1944. (News Digest #1341).

SECRET

SECRET

of 29,269,000 kr., leaving a margin for export to Axis countries other than Germany. Actually, SKF contracts with Germany and the remainder of Axis Europe as of 30 April 1944 totalled just over 26,000,000 kr. Furthermore, the Swedes agreed later with the Allies that no more than one-twelfth of the annual quota would be exported in any one month of 1944, a monthly limitation of 2,418,000 kr. under the Anglo-American-Swedish agreement and a monthly limitation of 2,166,000 kr. under existing commitments to the Axis countries. Available evidence does not indicate that the Swedes have violated the monthly allocations so far in 1944.

In view of the agreements consummated with the Anglo-American government and Germany, the Swedes felt assured that the ball bearing industry had been laid away for the remainder of the year 1944. They failed to reckon with the resumption of large-scale bombing attacks.

3. Bombings 1944

The USAAF, with some assistance from the RAF, continued the bombing offensive against Axis ball bearing production with undiminished intensity in 1944. The table which follows gives the raids and their estimated damage.

1. OSS #27570, 10 January 1944; #31680, 20 April 1944
2. Nya Dagligt Allehanda, 9 January 1944, Morgontidningen, 9 Jan. 1944, Stockholms-Tidningen, 9 January 1944. (Used D. Genk #1342).

SECRET

SECRET

Table VIII, 1944 RAIDS ON AXIS BALL BEARING PLANTS

1944	Plant	Estimated production loss, number of months' output
3 January	Turin and Villar Perosa, Italy ^a	3-7
20 February	VKF, Stuttgart	3½
24 February	VKF, Schweinfurt	1
24 February	Kugelfischer, Schweinfurt ^b	1½
8 March	VKF, Erkner	5
29 March	Turin, Italy	7
2 April	Steyr, Austria	6
13 April	Kugelfischer, Schweinfurt ^c	4
13 April	VKF, Schweinfurt	1½
9 May	Annecy, France	10

a. With RAF; also hit 15 March 1944.

b. Hit earlier by RAF.

c. The big Berlin raids at this time may have affected one month's production of the small Berlin plants.

Sources: OSS, Economics Subdivision, Military Supplies Section.

The cumulative effect of these raids and the earlier ones is estimated to have reduced the bearing production of German Europe by somewhat less than 50 percent in May 1944 as compared with mid-1943.

1. OSS, Economics Subdivision, Military Supplies Section.

SECRET

SECRET

- 34 -

C. Preparation of the Demarche, 25 January -- 13 April 1944

It was determined by the Joint Chiefs of Staff that it was of the utmost military importance to secure a reduction in or termination of Swedish bearing exports to Axis Europe.¹ Diplomatic steps, therefore, were undertaken by the State Department and the Foreign Economic Administration to effect this objective. At the same time, general diplomatic efforts were made to obtain the reduction or elimination of many types of economic aid extended to the enemy by the neutrals. In an address on 9 April, Secretary Hull spoke of the neutrals in a manner that appeared to be directed particularly to Sweden, Swedish exports of iron ore,² and the ball bearing controversy.

We can no longer acquiesce in these nations' drawing upon the resources of the allied world when they at the same time contribute to the death of troops whose sacrifice contributes to their salvation as well as ours. We have scrupulously respected the sovereignty of these nations; and we have not coerced, nor shall we coerce, any nation to join us in the fight. We have said to these countries that it is no longer necessary for them to purchase protection against aggression by furnishing aid to our enemy--whether it be by... sending to Germany the essential ingredients of the steel which kills our soldiers or by permitting highly skilled workers and factories to supply products which can no longer issue from the smoking ruins of German factories. We ask them only, but with insistence, to cease aiding our enemy.

1. OSS, #30972, 3 April 1944.

2. Department of State Bulletin, 15 April 1944, vol. X, No. 251, p. 336.

SECRET

SECRET

On 25 January 1944, the State Department had expressed concern to the Swedish government with respect to the sharp increase in Swedish exports of ball bearings and, especially, of balls and rollers to German Europe, in violation of the War Trade Agreement.¹ It was proposed in February that a joint Anglo-American note be sent to Sweden on this matter. The British desired that the sanctions to be imposed on Sweden, should its government fail to give adequate assurances, be worked out in advance. The American view was that exports in 1944 should be reduced by the amount to which 1943 exports exceeded 1942 exports. The British were chary of so strong a demand and suggested instead that deliveries be spaced evenly in 1944 so as to prevent concentration in the early months of the year.² The Swedes showed willingness to accede to this latter request by agreeing to limit exports in the first half of 1944 to 50 percent of the annual quota. In addition, the Swedes agreed to space exports so that no more than 1/12 of the annual quota fell in a single month and SKF agreed not to permit the Germans to shift their orders for other types of bearings.³

Exploratory discussions with regard to bearings were

1. OSS #27948, 25 January 1944; #28476, 8 February 1944.
2. OSS #28233, 3 February 1944; #29130, 19 February 1944; #29550, 5 March 1944; #30122, 16 March 1944; #30613, 26 March 1944.
3. OSS #29232, 26 February 1944; #30916, 3 April 1944.

SECRET

SECRET

conducted in early April 1944 in London between the Anglo-American Governments and Sweden. The Swedish representative indicated that his government was anxious to acquire Spitfires but that it would not reduce its exports of ball bearings in exchange for the fighter planes. A German trade delegation was expected in Stockholm in mid-April and the Germans were imposing pressure including lavish offers of supplies in order to get bearings.¹

Early in April the State Department and the FEA agreed on a draft note to be submitted to Stockholm. In essence, it provided (1) for the immediate and complete cessation of exports of ball and roller bearings and the elements necessary to their production; (2) that the United States should assume the German orders with SKF and supply Sweden with materials the Germans might deprive her of in retaliation; and (3) if Sweden failed to agree, blacklisting was threatened.²

The British view was that this draft was too severe. Instead, they preferred a three months' embargo on exports and had strong reservations on the threat to blacklist because they did not wish to lose the advantages of the existing War Trade Agreement and because of their own need for SKF bearings in aircraft. They also desired that the USSR join in the démarche. The possibility of meeting British needs out of American production was

1. OSS #30916, 3 April 1944.

2. OSS #30972, 3 April 1944

SECRET

SECRET

¹
explored. In large part, however, the British views prevailed.

D. Demarche, 13 April 1944

On 13 April, the American Minister in Stockholm, Mr. Herschel V. Johnson, presented Foreign Minister G  nther with the American note. The key points made by the note were the following:

The American government expressed gratification over the steps taken by Sweden to terminate the humiliating measures forced upon Sweden during the flood tide of German conquest (referring mainly to the ending in August 1943 of Swedish transit facilities for German troops). It was now of paramount importance to eliminate all exports from the neutrals to Germany which were utilized by Germany to kill American soldiers. Sweden was asked, therefore, to suspend for at least three months exports of ball and roller bearings, machinery, special tools, and special steels for the manufacture of bearings, and piston rings to Germany. In view of the difficulties such a step might impose on Sweden, the American government was prepared to (1) assume German orders with SKF within the limits of the War Trade Agreement; (2) assure to SKF to the fullest extent possible title to its German properties should they be expropriated

1. OSS #31041, 6 April 1944; #31199, 10 April 1944; #1431, 12 April 1944; #31286, 12 April 1944; #31200, 10 April 1944.
2. OSS, #30972, 3 April 1944; #31392, 13 April 1944; #32008, 27 April 1944

SECRET

SECRET

by Germany in retaliation; (3) reimburse Sweden for possible loss of critical imports from Germany and offset other possible economic loss insofar as that was possible; (4) provide products needed by Sweden for her economy and defense. If Sweden refused to accede to this proposal, the United States would give serious consideration to using all the means at its disposal to bring about the desired result.

In addition to the note, Mr. Johnson made two points orally: (1) Exports were to be stopped immediately, that is, while negotiations were in progress. (2) Sweden would make a bad impression on American public opinion if it failed to agree, with untold results on the future position of Sweden in American opinion.

E. British, Russian and Norwegian Views

The British minister was present when the American note was presented and the British government associated itself completely with the American representations. A similar position was taken by the Soviet government a week later, and the Russian¹ press supported the American effort.

Neither the British nor the Russian governments, however,

¹ 055, #31392, 13 April 1944; #31377, 21 April 1944; #31303, 20 April 1944; Stockholm via London wire #1390, 21 April 1944; #1467, 26 April 1944; #2003, 5 June 1944.

SECRET

SECRET

was willing to support the policy of blacklisting SKF, as recommended by the Americans, if Sweden refused to comply with the request.¹ The British opposed blacklisting, for the following reasons: (1) The Swedes were sensitive to threats to an extent that revealed an inferiority complex and their reaction could be counted upon to be extreme. (2) The British received supplies from Sweden which might be cut off, though this was not emphasized because supply needs could be met from other sources. (3) Existing agreements and pre-emptive orders limited Swedish bearing exports to the enemy. Blacklisting might be regarded by Sweden as a breach of the War Trade Agreement and the Agreement might be repudiated by them. SKF could then deliver bearings to the enemy at the rate of 100,000,000 kr. annually as compared with existing contracts for about 26,000,000 kr. The Swedes might relax the policing of the agreement and smuggling small bearings would be simple. Further, by the end of May the British expected to have several thousand tons of bearings stockpiled in Gothenburg or on board vessels in that city's harbor, which might be seized and turned over to the enemy.²

1. American ball bearing facilities are sufficient to meet the demands of domestic consumers. Both the United Kingdom and the USSR are dependent, in part, upon imports and both want to trade with SKF, Gothenburg. Blacklisting entails the complete cessation of trade between nationals of the United Nations and the blacklisted concern, except by approval of the blacklisting authorities. A firm which violates the blacklist is in turn subject to blacklisting.

2. OSS #31680, 20 April 1944; #31732, 22 April 1944.

SECRET

SECRET

The Russian opposition to blacklisting was based on the Russian desire to obtain delivery on stockpiled orders placed with SKF. The Russians were anxious to get these bearings for their war industry and for the rehabilitation of their economy.¹

An unusual feature of the ball bearing controversy was the silence of Norway. The Norwegians had been critical of Swedish help to Germany in the past and it would not have been surprising had they adopted a similar attitude in the present case. Norsk Tidend, the official organ of the information service of the Norwegian government in London, seems to have been silent.² The Norwegian-American newspaper, Nordisk Tidende of Brooklyn, which has often criticized Swedish neutrality, did not make an issue of the ball bearing question.³ The only available comment by a Norwegian-American paper was favorable to Sweden. The Norwegian-language weekly, Duluth Skandinav, defended Sweden's trade with Germany as being in conformity with a trade agreement which Sweden, as a neutral nation, had to adhere to.⁴ The reason for the Norwegian attitude, apparently, is that Norway is looking toward the end of the war when Sweden's help will be needed in the reconstruction of Norway and the

1. OSS, #33033, 23 May 1944; #33237, 20 May 1944; #34616, 13 June 1944; Stockholm via London wire #1516, 29 April 1944.

2. Norsk Tidend, 16 April--14 June 1944.

3. OSS, Foreign Nationalities Branch, "Swedish Exports to Germany as viewed by the Scandinavian-American Press", No. B-198, 20 May 1944.

4. Duluth Skandinav, 12 May 1944.

SECRET

SECRET

Norwegians do not wish to undermine the improved relations which have developed between the two countries since 1943.

F. Swedish Reaction

The American note surprised and irritated the Swedish government and Swedish public opinion. Foreign Minister Günther's reaction to the presentation was unfavorable. He objected to the language of the note, pointed out the legal difficulties involved in meeting the demand within the framework of the German contracts and the War Trade Agreement, and emphasized the exposed economic position of Sweden encircled by Germany. The cabinet took the same position. On 18 April, both houses of the Riksdag met in secret session at which time the Prime Minister and Foreign Minister presented the attitude of the government. It was unanimously agreed to reject the demand,¹ not even the Communist members voting in opposition.

The Swedish reply was delivered on 22 April. The note stated that Sweden was unable to accede to the American demand, though careful attention would be given to the fundamental idea of the American government that neutral Sweden should avoid aiding the enemies of the United States. As the basis

1. OSS #31392, 13 April 1944; #31425, 15 April 1944; #31370, 18 April 1944.

SECRET

for the reply, the Swedes stated that they were acting within legal engagements and the nation's vital economic interests.

The door was not closed on further negotiations, however.¹

The attitudes of 32 Swedish newspapers and periodicals to the ball bearing controversy are available and provide a cross-section of Swedish press reaction. Of these papers, 24 supported the Swedish government's position and 8 supported the American position. Of the total number of periodicals, 27 are daily newspapers and 5 are weekly or monthly periodicals. The Swedish government was supported by 21 of the dailies while the American government was supported by 6 of the dailies. Of the five weekly or monthly periodicals, three supported the Swedish position and two favored the American position.

Eleven of the dailies are published in Stockholm and of these 9 supported the Swedish position and 2 supported the American position. The pro-Swedish Stockholm dailies were:
Stockholms-Tidningen (Conservative),² Aftonbladet (pro-German),³
Nya Dagligt Allehanda (Conservative),⁴ Svenska Dagbladet (Con-⁵
servative),⁶ Dagens Nyheter (Liberal), Morgen-Tidningen (Social-

1. CID #70993-C, 25 April 1944; #31826, 22 April 1944.
2. Stockholm via London wire #1549, 2 May 1944; #1665, 11 May 1944; #1684, 12 May 1944; #1723, 15 May 1944.
3. Stockholm via London wire #1485, 27 April 1944; #1516, 29 April 1944; #1601, 6 May 1944.
4. Stockholm via London wire #1429, 24 April 1944; #1578, 4 May 1944; #1637, 9 May 1944; #1732, 16 May 1944.
5. Stockholm via London wire #1335, 18 April 1944, #1429, 24 April 1944; #1435, 27 April 1944.
6. Stockholm via London wire #1429, 24 April 1944; #1435, 27 April 1944; #1723, 15 May 1944.

SECRET

Democratic), ¹Dagsposten (Nazi), ²Svenska Morgonbladet (Liberal, free church), ³and Aftonbladet (trade union). ⁴The two Stockholm dailies which supported the American position were: Arbetaren (Syndicalist) ⁵and My Dag (Communist). ⁶The Stockholm daily press gave overwhelming support to the Swedish government, with the exception of the two radical papers, thereby reflecting the capital's preoccupation with Sweden's own interest and an eastern and southern orientation in foreign affairs.

Sweden's second city, Gothenburg, has two dailies represented. The Handels- och Sjöfarts-Tidning (Sweden's leading pro-Allied newspaper) ⁷supported the American position, while Göteborgs-Posten (Liberal) ⁸was pro-Swedish. Gothenburg, which is Sweden's leading port and outlet to the Atlantic world, reflects the ideas of the western democracies most quickly.

1. Stockholm via London wire #1429, 24 April 1944; #1624, 6 May 1944.
2. Stockholm via London wire #1390, 21 April 1944; #1684, 12 May 1944; unnumbered, 26 May 1944.
3. Stockholm via London wire #1485, 27 April 1944; #1623, 2 May 1944; #1578, 4 May 1944.
4. Stockholm via London wire #1390, 21 April 1944; #179, 20 May '44.
5. Arbetaren, 9 May 1944. (News Digest #1444).
6. Stockholm via London wire #1429, 24 April 1944; #1704, 13 May '44.
7. Stockholm via London wire #1390, 21 April 1944; #1429, 24 April 1944; #1624, 6 May 1944.
8. Stockholm via London wire #1317, 17 April 1944.

SECRET

Malmö, Sweden's third city, is represented by two dailies, both of which supported the Swedish position, Sydsvenska Dagbladet ¹ and Skånska Dagbladet. ² Malmö is Sweden's southernmost major port and one of the country's leading contact points with Central Europe.

Of the provincial press, 12 daily newspapers are represented, of which 9 supported the Swedish government and 3 took a pro-American stand. The 9 provincial pro-Swedish dailies were: Västmanlands Läns Tidning (Västerås), ³ Öresunds-Posten (Hälsingborg), ⁴ Hälsingborgs-Dagblad (Hälsingborg), ⁵ Uppsala Nya Tidning (Uppsala), ⁶ Västernorrlands Allehanda (Härnösand), ⁷ Östergötlands Folkblad (Norrköping), ⁸ Skånska Socialdemokraten (Hälsingborg), ⁹ Norrköpings Tidningar (Norrköping), ¹⁰ and Örebro-Kuriren (Örebro). ¹¹ The 3 provincial pro-American newspapers were: ¹² Karlstads-Tidningen (Karlstad), ¹³ Eskilstuna-Kuriren (Eskilstuna), ¹⁴ and Falukuriren (Falun).

1. Stockholm via London wire #1502, 28 April 1944.
2. Skånska Dagbladet, 15 May 1944. (News Digest #1450)
3. Västmanlands Läns Tidning, 14 April 1944. (News Digest #1423).
4. Öresunds-Posten, 27 April 1944. (News Digest #1435).
5. Hälsingborgs-Dagblad, quoted DNB, 29 April 1944. (News Digest #1437).
6. Stockholm via London wire #1447, 25 April 1944; #1575, 4 May 1944; #1732, 16 May 1944.
7. Stockholm via London wire #1637, 9 May 1944.
8. Stockholm via London wire #1624, 8 May 1944.
9. Stockholm via London wire #1549, 2 May 1944.
10. Stockholm via London wire #1502, 28 April 1944.
11. Stockholm via London wire #1288, 15 April 1944.
12. Karlstads-Tidningen, 27 Apr. 1944. (News Digest #1435).
13. Eskilstuna-Kuriren, 2 May 1944. (News Digest #1439)
14. Falukuriren, 4 May 1944. (News Digest #1441).

SECRET

In addition to the daily newspapers, five weekly and monthly periodicals expressed an attitude toward the ball bearing controversy. Of these, three supported the Swedish government, Finanstidningen (financial weekly)¹, Obs (semi-monthly political magazine)², and Fackföreningsarbetaren (labor federation monthly)³, while two supported the American government's position, Nordens Frihet (pan-Scandinavian monthly)⁴ and Nu (weekly newsmagazine)⁵.

G. The Swedish Argument

There are four basic elements in the Swedish argument as advanced by the government and the press which led to Sweden's rejection of the American note.

1. National Security: The paramount aim of Swedish foreign policy during the war is the preservation of Swedish neutrality. Sweden's leaders state that she will not abandon it unless attacked. The country has been at peace since the Napoleonic Wars and the Swedish people have an historically ingrained⁶ devotion to their neutrality.

1. Stockholm via London wire #1624, 8 May 1944.
2. Stockholm via London wire #1601, 6 May 1944.
3. Stockholm via London wire #1429, 24 April 1944.
4. Stockholm via London wire #1777, 19 May 1944.
5. Stockholm via London wire #1601, 6 May 1944.
6. In a recent Gallup Poll, the Swedes were asked: "Do you consider it has been right for Sweden to try to remain neutral during the war?" The response was 96 percent affirmative, one percent negative, and three percent undecided. (Stockholm via London wire #2369, 29 June 1944).

SECRET

SECRET

The Swedes were convinced that the ball bearing demand was a direct threat to their neutrality. This was the view of the General Staff and High Command, the Government, and the Riksdag. They believed that agreement with the American demand would align Sweden with the United Nations both in fact and in German eyes, and that this would result in the strong possibility of a German invasion of Sweden. This fear has abated since the landings in France and there is some reason to believe that the Swedes delayed negotiation for that eventuality. The Swedish position was that Germans derived advantages from Sweden's neutrality and, if that neutrality passed, the Germans would move to protect their northern flank, in which case, the Americans and British could do little to help Sweden. Further, the Swedes were convinced that the American ball bearing demand was a cloak for the "ulterior" and "sinister" motive of dragging Sweden into the war. In the view of the American minister in Stockholm the consideration for national security was the basic reason for the Swedish government's stubbornness on the bearing question.

1. OSS #31392, 13 April 1944; #32404, 9 May 1944; #32439, 10 May 1944; #32532, 11 May 1944; #32532, 16 May 1944.

2. OSS #32532, 11 May 1944.

3. OSS #32038, 28 April 1944; #32439, 10 May 1944; #32532, 11 May 1944.

4. OSS #32439, 10 May 1944.

5. OSS #32439, 10 May 1944.

SECRET

SECRET

2. Sweden's Economic Position. Sweden is effectively surrounded by German-controlled territory. Outside of air traffic, she has no means of trading with the outside world except insofar as belligerents, including the Germans, permit it through the safe-conduct traffic. Sweden is dependent upon international trade for the maintenance of her economy. Since 1940, over 80¹ percent of her trade has been with German Europe. Sweden's coal resources are insignificant and she depends almost exclusively upon imports of coal from Germany for heating, transportation, and industry, trading iron ore in return. The Allies will be unable to supply Sweden with coal until sea communication² with Sweden is opened. Swedish investments in German Europe are heavy. The largest group of productive facilities in the SKF system is in Germany and Nazi-controlled countries. They are subject to German control and possible German expropriation. Potential German economic sanctions on Sweden are, therefore, severe. The United States and Britain, on the other hand, have more limited economic weapons at their disposal, namely, blacklisting, interruption of the safe-conduct traffic, wartime and post-war exclusion from markets and sources of supply, expropriation

1. CID, #70953-C; OSS #31392, 13 April 1944; DNB 26 April 1944. (News Digest #1433); Svenska Dagbladet, 27 April 1944. (News Digest, #1434.)

2. OSS, Sweden, Material for Sections, III, IV, V of a Projected MIS Survey, vol. I, p. 74.

SECRET

SECRET

of Swedish property in the United States and the British Empire. The Swedes argued that the cutting off of Sweden from economic contact with the Allied world would have the opposite effect from that desired by the Allies. It would make Swedes more dependent upon Germany for exports which would entail larger Swedish exports to Germany.¹

3. Legality. In its rejection of the American note on 23 April, the Swedish government advanced as one of its major arguments that compliance with the American demand would implicate that the Swedish government would not fulfill engagements undertaken with Germany which were in complete accordance with the War Trade Agreement.² In the early stages of the negotiations, Swedish representatives stated that Sweden could not accede to the American demand without violating a treaty obligation to Germany.³ At this stage of the negotiations, the Swedish press argued that the American government was asking the Swedish government to breach a legal engagement and that Sweden could not violate her treaties.⁴

1. Stockholm via London wire #1288, 15 April 1944; Transocean 27 April 1944. (News Digest #1433); Stockholms-Tidningen, 18 April 1944, Aftonbladet, 14 April 1944, Eskilstuna-Kuriren, 14 April 1944. (News Digest #1423).

2. CID #70993.

3. OSS #31392, 13 April 1944; #31418, 15 April 1944; #31545, 17 April 1944.

4. American-Swedish News Exchange, News from Sweden, No. 161, 19 April 1944; Stockholm via London wire #1370, 20 April 1944; #1404, 22 April 1944; #1573, 4 May 1944; #179, 20 May 1944; #1429, 24 April 1944; #1485, 27 April 1944; #1516, 29 April 1944; #1549, 2 May 1944; #1704, 13 May 1944; #1723, 15 May 1944.

SECRET

SECRET

As a matter of fact, the Swedish government was not contractually committed to deliver ball bearings to Germany. In the Swedish-German Trade Agreement for 1944, the Swedish government committed itself to provide export licenses for ball bearings up to a limit set by the War Trade Agreement with the Allied governments.¹ The Swedish government might have agreed to embargo bearings completely without incurring a violation of contract. SKF, on the other hand, did have contracts with Germany for the delivery of bearings in 1944. These contracts did not, however, stipulate the spacing of deliveries and such deliveries could legally be deferred till the year's end. A three month embargo, the minimum demand, was within the framework of SKF's commitments. At a later stage of the negotiations, this legal distinction was made clear in the Swedish press and it was no longer contended that the American demand automatically entailed a breach of contract for the Swedish government.²

The American government provided careful legal cover for both the Swedish government and SKF. It was pointed out to the Swedes that an embargo for a minimum period of three

1. Foreign Economic Administration, Blockade Division; Stockholm via London wire, #1637, 9 May 1944.

2. Stockholm via London wire #1637, 9 May 1944; #1684, 12 May 1944; #2158, 15 June 1944.

SECRET

SECRET

months was legal, since the spacing of deliveries was at the option of SKF. The Swedes, for example, had exported in January to Germany in certain categories the full amount under the annual ceiling.¹ An embargo on ball bearings to all belligerents would be within the framework of the Royal Swedish Decree of June 1935, which prohibited the export of war materials to belligerents. The Swedes could define bearings as war materials since they had been willing so to define crude petroleum, gas respirators, airdrome equipment, military cooking stoves, and other camp equipment.² Further, the United States informed SKF that the company would be held legally harmless against any suits that the Germans might later bring for failure to perform under the contracts.³

Despite the fact that the Swedish government made much of the legality aspect in its official position and that the Swedish press gave it considerable play in the early part of the negotiations, there is little reason to believe that the government took the argument seriously, as can be seen from the following: The government consented to a complete embargo on 12 May, which was a breach of its alleged contractual obligations.⁴ When the final agreement was about to be consummated, the press discovered

1. OSS, #32008, 27 April 1944.

2. OSS, #32496, 11 May 1944

3. OSS, #32404, 9 May 1944

4. See below, p. 57.

SECRET

the fact that the government was not legally committed to make deliveries, only provide export licenses. And in 1940-1943 the Swedes did not honor their 1939 War Trade Agreement with Great Britain by which they bound themselves not to exceed 1938 bearing exports to Germany, which demonstrates that the Swedish government can violate treaties when the national¹ interests are sufficiently compelling.

4. Relative unimportance of Swedish exports to Germany.

The Swedish government maintained that the Allied governments and press attached an exaggerated importance to Swedish bearing exports to Germany.² A Swedish Foreign Office spokesman stated to representatives of the American press that assertions that losses in German bearing capacity due to the raids were being compensated for by imports from Sweden were false. He contended that only three percent of Germany's bearings were supplied by Sweden prior to the raids and that the relative amount was in May 1944 still small. "The assertion that instead of expanding its own ball bearing industry, Germany preferred to get imports from neutral, bomb-protected Sweden, can be regarded as fantastic."³ The Swedish press emphasized the government's view that Swedish

1. Ministry of Economic Warfare, op. cit., "War-time developments in production" p.7; "Appendix E. German trade in ball bearings with Sweden," p. 1.

2. OSS , #32028, 28 April 1944.

3. American-Swedish News Exchange, News from Sweden, No. 165, 17 May 1944.

SECRET

exports were an insignificant factor in the German war machine and indicated that the undue importance attached to the issue¹ by the Americans suggested American military weakness.

H. German Pressure

Pressure was placed on the Swedish government by the Germans to prevent Sweden from acceding to the American demand. The nature of that pressure is not entirely clear from the available documents, but it can be assumed that it played upon the fears expressed in the Swedish argument, namely, fear of invasion and fear of economic retaliation. It may be more than a coincidence that during April and May, while the ball bearing negotiations were at their height, three shipments of German military maps of Sweden en route from Germany to Norway via Sweden were "accidentally" discovered by Swedish authorities and confiscated. Several hundred thousand maps were involved, some printed as recently as March 1944, and they created a sensation in Sweden. The Swedish government lodged a formal protest and suspended the special facilities for mail and courier transit on the Swedish railways which the² Germans had enjoyed. It was also reported in the Swedish press

1. Stockholm via London wire #1311, 17 April 1944; #1429, 24 April 1944; #1549, 2 May 1944; #1601, 6 May 1944; #1665, 11 May 1944; #1704, 13 May 1944; #1723, 15 May 1944; #2168, 16 June 1944.

2. Stockholm via London wire #1317, 17 April 1944; #1353, 19 April 1944; #1447, 25 April 1944; #1467, 26 April 1944; #1562, 3 May 1944; #1578, 4 May 1944; #1601, 6 May 1944; #1624, 8 May 1944; #1637, 9 May 1944; #1754, 17 May 1944; #1828, 23 May 1944; #1980, 3 June 1944.

SECRET

that the Germans had recently constructed airfields in Norway¹ along the Swedish frontier and in Finland along the Gulf of Bothnia.

The Germans exerted economic pressure on SKF and offered economic inducements to Sweden. One hundred and fifty Focke-Wulf fighter planes of the latest model were offered and strenuous efforts were made to step up shipments of German coal and coke, including extra air defenses for Hamburg as a railhead for² coal shipments.

A stream of German officials visited Stockholm after 13 April. The nature of their business is not entirely clear in available material, but it is certain that many of them were concerned with ball bearings. Calls were paid on the Swedes by Paul Schmidt, head of the Press Department of the Foreign Office, Fritzsche, Goebbels' radio chief, Schnurre, German commercial delegate, and von Grundherr, chief of the Scandinavian Section of the Foreign Office. In addition, the Swedish minister³ in Berlin, Arvid Richert, made a trip to Stockholm.

The German press and radio conducted an intensive campaign in which it hailed the legally impeccable position of Sweden on the ball bearing question; cited Allied pressure on the neutrals

1. Stockholm via London wire unnumbered, 26 May 1944.
2. OSS, #31823, 22 April 1944; #32750, 15 May 1944; Stockholm via London wire #2596, 13 July 1944.
3. Finnish Home Service, 19 April 1944. (News Digest #1427; Aftenbladet, 12 May 1944. (News Digest #1447); Ny Dag, 15 May 1944. (News Digest #1449); Stockholm via London wire #1426, 24 April 1944; #1649, 10 May 1944; #1704, 13 May 1944.

SECRET

as a sign of weakness in compensation for the failure to achieve victory; contended that it was typical Allied brutality and bluff to deny post-war markets to Sweden; and raised the Bolshevik bogey.¹ The press campaign did not include threats to Sweden's military and economic security.

I. Negotiations

Despite their rejection of the American note, the Swedes left the door open for negotiations, which were undertaken. The Swedes quickly agreed to the minor demand for the cessation of exports of piston rings to Germany.²

The British favored dealing directly with SKF, which as a private concern could take actions that the government might not be able to take. The British hoped to work out a compromise by means of which SKF would be permitted to make token exports of items of non-military value. The Swedish government did not prevent direct negotiations with the company, but it did not agree to approve any agreement which might be reached. Exploratory discussions were held on 23 April by Waring, the representative of

1. Transocean, 13 April 1944, Nachtausgabe, 13 April 1944, Völkischer Beobachter, 14 April 1944. (News Digest #1422); NPD, 27 April 1944, DNB, 26 April 1944, National Zeitung, 19 April 1944. (News Digest #1433); NPD, 28 April 1944, DNB, 28 April 1944, DNB, 27 April 1944, NPD, 27 April 1944, NPD, 27 April 1944. (News Digest #1434); DNB, 28 April 1944. (News Digest #1435); NPD, 2 May 1944. (News Digest #1437); DNB, 13 May 1944, Transocean, 13 May 1944. (News Digest #1447).

2. OSS #31826, 22 April 1944; #32353, 5 May 1944; #35752, 14 July 1944; CID, #70993, 25 April 1944.

SECRET

SECRET

the Ministry of Economic Warfare, with Marcus Wallenberg, the brother who represents the family in negotiations with the Allies and Hamberg, representing SKF. As a result, Waring was given access to SKF books, which provided valuable information.¹

The suggestion was made by Waring that the Swedes could place an embargo on shipments to all belligerents in order to avoid the appearance of discriminating against Germany and consideration was given to this proposal by the Swedes. The British had now found that they could meet their own demands without reliance on SKF, Gothenburg. This scheme was endorsed by both the State Department and the Foreign Economic Administration. Since the British were probably taking a larger amount of SKF's production than the Germans, the action would appear to harm Britain more than Germany. And it was suggested that formal protests might be lodged by the American, British, and Russian governments. The Swedish government was shown that such an action could be taken within the framework of Swedish law. After study, however, the Swedish government rejected the proposal, for the same general reasons that had motivated them to reject the original American demand. SKF

²
was also opposed.

1. OSS, #31392, 13 April 1944; #31418, 15 April 1944; #31425, 15 April 1944; #31826, 22 April 1944; #31732, 22 April 1944; #31827, 23 April 1944; #32292, 4 May 1944.

2. OSS, #31876, 25 April 1944; #31892, 25 April 1944; #32008, 27 April 1944; #32028, 28 April 1944; #32125, 28 April 1944; #32159, 29 April 1944; #32293, 4 May 1944; #32404, 9 May 1944.

SECRET

SECRET

Opposition to an embargo against all belligerents was also voiced by the Russians. This was despite the facts that the only SKF bearings being delivered to the USSR were a small number flown out via England and that the American and British governments offered to meet Russian needs out of their own supplies. The Russians, however, refused to agree to a joint *démarche* in favor of an embargo against all belligerents, though they agreed to support an embargo against all belligerents except the USSR.¹ The Russian attitude was motivated by their desire to obtain delivery on their orders placed with SKF as soon as military developments made possible the opening of communication with Sweden, and an embargo against all belligerents² would interfere with those deliveries.

During the last week of April and the first week of May, further discussions took place between Waring of the Ministry of Economic Warfare and Marcus Wallenberg and Hamberg, representing SKF. In these discussions, Waring reverted to the original British position of permitting SKF to make token shipments to Germany. Apparently, the company accepted this proposition in principle though a detailed³ arrangement was not worked out.

On 8 May, Mr. Stanton Griffis of the Foreign Economic Administration and the United States Commercial Corporation arrived in

1. OSS, #33237, 20 May 1944; #33440, 29 May 1944.

2. OSS, #34616, 13 June 1944.

3. OSS, #32157, 28 April 1944; #32421, 3 May 1944; #32293, 4 May 1944; #32356, 6 May 1944.

SECRET

SECRET

Stockholm to attempt to resolve the controversy. He met with Wallenberg and made the following offer: SKF would embargo all types of bearings and bearing machinery immediately, to last for the duration of the war. In return, the United States would assume all unfilled German orders under the 1944 agreement and place orders for 1945 delivery at the 1944 ceiling, a total of approximately 50,000,000 kr. The American Government would hold SKF harmless against legal action which the Germans might later bring over an alleged breach of the German contracts. Griffis was empowered to spend \$25,000,000 to shut off Swedish exports¹ to Germany, with \$5,000,000 more available should he need it.

At the same time, pressure was placed on SKF, Industries Philadelphia. It was included in the Treasury list of special blocked nationals; it found that its requests with the Foreign Economic Administration for export licenses for Latin America were "lost"; it was threatened with blacklisting in Central and South America; and the Alien Property Custodian began an investigation of the company on 1 May with the implied threat of taking² over the properties. As a result of these actions, SKF agreed to impose a secret embargo on all exports to Germany commencing

1. OSS, #32404, 9 May 1944; Foreign Economic Administration, Blockade Division.

2. OSS, #13004, 18 May 1944; #32511, 11 May 1944; Foreign Economic Administration, Blockade Division; OSS source.

SECRET

SECRET

12 May and continuing until 5 June, but not beyond, pending further negotiations. This embargo, apparently, was imposed with the approval of the Swedish government. The British had again¹ changed their position and now favored a complete embargo.

The Swedes viewed the danger of blacklisting with great seriousness. Since over 80 percent of Swedish trade was with Germany, the Allied governments would have no difficulty in finding Swedish firms that qualified for the blacklist. Further, the Swedes have a sharp eye out for post-war trade and they have no illusions about which side is going to win the war. There is no assurance that blacklisting once imposed² will be removed immediately after the conclusion of hostilities.

The American Government utilized the Swedish fear of blacklisting as a lever for exerting pressure during the SKF negotiations. On 22 May, the State Department added 38 small Swedish firms to those already blacklisted by the Interdepartmental Proclaimed List Committee. These concerns were engaged in shipping, the handling of food, and specialty manufacturing. On³ 3 June, 53 other small Swedish firms were listed. In addition, in the early stages of the negotiations, very wide publicity was

1. OSS, #32511, 10 May 1944; Foreign Economic Administration, Blockade Division.

2. OSS #32879, 18 May 1944; Foreign Economic Administration, Blockade Division.

3. New York Times, 23 May, 4 June 1944.

SECRET

SECRET

given in the American press to Sweden's role as an economic satellite of Germany, particularly with reference to ball bearings. This publicity disturbed the Swedes because they are highly sensitive to American criticism. When, at a later stage, negotiations were undertaken directly with SKF, it was found¹ advisable to put an end to the publicity.

The Swedes, too, played the game of pressures. Three employees of SKF, two of them Swedes and one apparently a Norwegian or Dane, were engaged in espionage for the United States, providing information on the volume, type, and destination of bearing exports. The company was aware of their activities for some time. They were not arrested, however, until 27 May. On 14 June they were convicted. The two Swedes were sentenced to two years and six months and two years and nine months' imprisonment and the foreigner to three years² imprisonment.

The Swedish government fully authorized SKF on 11 May to examine the possibilities of a deal with Griffis "without violating the German agreement." Negotiations were held in mid-May, but proved fruitless. At the end of May, however,

1. See above, p. 38; Stockholm via London wire #1502, 28 April 1944; #1516, 28 April 1944; OSS #32434, 10 May 1944; #32630, 13 May 1944.

2. Swedish Press, 25 May 1944. (News Digest #1457); Transocean, 25 May 1944. (News Digest #1458); Swedish Press, 28 May 1944. (News Digest #1460); Swedish Press, 8 June 1944. (News Digest #1470); Transocean, 14 June 1944. (News Digest #1475); Foreign Economic Administration, Blockade Division.

SECRET

SECRET

Hamberg, representing SKF, made the following offer: SKF would cease all deliveries of aircraft bearings and it would reduce by 50 percent the export of other types of bearings and bearing machinery between 5 June and 1 September 1944. The Foreign Economic Administration expressed some concern over this proposal on the ground that the Germans no longer needed aircraft bearings, because of the decline in their plane production due to the bombings. The permitted exports would go, presumably, into ground force equipment. Griffis and Johnson favored an 80 per cent reduction in non-aircraft bearings to continue until 30 September. Since the interested authorities in Washington were considering the SKF proposal at the time the temporary embargo expired, the company agreed to extend the temporary embargo beyond 5 June, on the condition that Washington make a prompt decision.

SKF, with the approval of the Swedish government, offered further concessions on 7 June, the day after the invasion of France. The American minister in Stockholm was convinced that during the previous negotiations the Swedes had tried to gain time till the opening of the invasion. These concessions were found satisfactory and an agreement was finally reached between Griffis, representing the United States Commercial Corporation, and Waring, representing

1. OSS #33335, 28 May 1944; Foreign Economic Administration, Blockade Division.

2. Foreign Economic Administration, Blockade Division.

3. OSS #33538, 1 June 1944; #33567, 2 June 1944.

4. OSS #33583, 3 June 1944.

5. Foreign Economic Administration, Blockade Division.

6. OSS #32532, 11 May 1944.

SECRET

SECRET

the Ministry of Economic Warfare, on the one hand, and SKF, on the other hand, SKF acting with the full knowledge and consent of the Swedish government.¹ Griffis and Waring did not shift their ground after the invasion; their improved bargaining position was not utilized to strike a better bargain. In fact, Griffis settled for less than he had demanded just prior to 6 June.² The terms of the agreement are as follows:³

The agreement shall cover the period 12 May--12 October 1944. SKF shall not export any aircraft bearings or aircraft bearing parts. SKF shall reduce by approximately 70 percent exports of other types of bearings and parts and bearing machinery,⁴ of which monthly exports shall be limited to the following amounts:

-
1. Foreign Economic Administration, Blockade Division.
 2. OSS #33538, 1 June 1944; #33567, 2 June 1944.
 3. OSS #33834, 9 June 1944; #34338, 9 June 1944; Foreign Economic Administration, Blockade Division.
 4. The 70 percent reduction is calculated in this fashion: From the ceiling for the calendar year 1944 imposed by the War Trade Agreement is subtracted exports for the period 1 January--12 May 1944. The 70 percent reduction is calculated on the balance. It is assumed that exports for the period 12 May--12 October 1944 will continue at the same rate beyond 12 October to the year's end. These exports, 12 May --31 December 1944, are a 70 percent reduction from the ceiling provided for the same period in the War Trade Agreement.

SECRET

Table IX. MONTHLY EXPORTS, 12 MAY--12 OCTOBER 1944.

Destination and type	Amount	Percent of shipments permissible under War Trade Agreement
To Germany		
Bearings and parts	470,000 kr.	21%
Machinery	133,000	50
To German Satellites	<u>298,000</u>	<u>58</u>
Total	901,000	30

Source: Foreign Economic Administration, Blockade Division

Undelivered balances to the German satellites after 12 October shall be delivered in equal monthly installments. There shall be no substitutions or changes in existing orders of either Germany or the satellites. The United States and Great Britain shall assume the orders which are not delivered to Germany and the satellites, paying \$4,000,000 for the German orders and \$1,750,000 for the satellite orders. The United States and Great Britain shall place orders immediately with SKF for a total of 10,272,000 kr. (ca. \$2,500,000).¹

1. The details of the share of the financial burden to be borne by the United States and Great Britain are not available as yet. Previous British commitments for pre-emptive orders are being considered in the arrangements. The United States intends to dispose of its share of the bearings in large part to the Soviet Union.

SECRET

The American and British governments reserve complete freedom of action at the expiration of the covered period. This last feature is an oral agreement and is not embodied in the formal exchange of letters between the interested parties. The Swedish government and SKF refused to put this reservation in writing, because they wanted to be able to export the permissible 1944 balance under the War Trade Agreement between 12 October and 31 December 1944.

At Swedish insistence, the detailed terms of the agreement were kept secret. The Swedes indicated that they desired¹ to keep the terms of the agreement from Germany.

1. OSS #34035, 10 June 1944; #34123, 12 June 1944; New York Times, 14 June 1944.

SECRET

SECRET

III. CONCLUSION

The agreement reached in June 1944 between the United States and Great Britain and SKF was a compromise. Mr. Stanton Griffis went to Stockholm to obtain a complete embargo on bearing exports if that was possible; if it was not possible, to obtain the best possible compromise.¹ The agreement represents a substantial reduction in Swedish exports to German Europe. The War Trade Agreement for 1944 entailed approximately a 50 percent reduction in 1944 exports as compared with 1943 exports. The new agreement permits 30 percent of the exports provided for under the War Trade Agreement. It permits about 15 percent of 1943 exports to German Europe and 10 percent to Germany.²

The ball bearing controversy revealed fissures in the United Nations diplomatic front. The American interest was specific and short-run: shut off an important source of material for German war industry in order to shorten the war. The British and the Russians, though agreeing in part with this policy, were unwilling to implement it; neither would agree to blacklist SKF. The interests of both in trade with Sweden after the war influenced their policies. The Swedes took advantage of this divided front.³ The final agreement was more in conformity

1. Foreign Economic Administration, Blockade Division.

2. Foreign Economic Administration, Blockade Division.

3. Stockholm via London wire #1311, 17 April 1944; #1317, 17 April 1944; #1516, 29 April 1944; #1601, 6 May 1944; #1732, 16 May 1944.

SECRET

SECRET

with British and Russian policies than it was in conformity with American policy.

There has been no public reaction by Germany to the ball bearing agreement, nor has a reaction appeared in sources available to the OSS. There has not been any retaliatory action taken against Sweden for agreeing to a substantial¹ reduction in bearing exports. The Swedish fears of such action do not seem to have been well-founded.

Friendly relations between Sweden and the United States are traditional and are one of the bases of Sweden's foreign policy. The Swedes are, therefore, concerned about the attitude of American public opinion toward their country. This was recognized by the American government when, on 13 April, the American note was presented to the Swedish Foreign Minister; Mr. Johnson warned Sweden that an unfavorable reply would create a critical attitude toward Sweden in American public² opinion. When the Swedish government rejected the American note on 23 April, the American press began a broad offensive against Sweden: She was pictured as an economic satellite of Germany, as profiting from both belligerents, as contributing with her iron ore and ball bearings to the killing of American³ soldiers. The Swedes were shocked and concerned over this

1. Stockholm via London wire #2596, 13 July 1944.

2. See above, p. 38.

3. Stockholm via London wire #1601, 6 May 1944; #1732, 16 May 1944; #1812, 22 May 1944.

SECRET

outburst and the Swedish government and press strove to answer the arguments used.¹ Some Swedes feared that Sweden's reputation in America would be permanently injured, while others expected the affair to blow over rapidly.² In recent years, Sweden has been very highly regarded in American public opinion, perhaps excessively so. The ball bearing controversy has served to blow the fresh air of wartime realism over the American attitude toward Sweden. It is unlikely that Sweden's position will be permanently impaired, for, as Ernest Hemingway has pointed out, the "...respect the average American has for Sweden and Swedes won't disappear because of ball bearings. Our respect for Swedish democracy and social policy are too deeply rooted."³

1. American-Swedish News Exchange, News from Sweden, No. 165, 17 May 1944; Stockholm via London wire #1516, 29 April 1944; #1624, 8 May 1944; #1732, 16 May 1944; #1812, 22 May 1944; #1896, 27 May 1944; #2168, 16 June 1944.

2. Stockholm via London wire #1516, 29 April 1944; #1624, 8 May 1944; #2168, 16 June 1944.

3. Stockholm via London wire #1812, 22 May 1944.